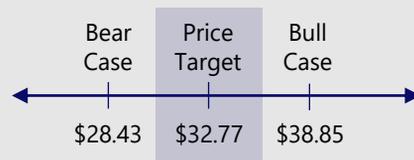




RESEARCH REPORT

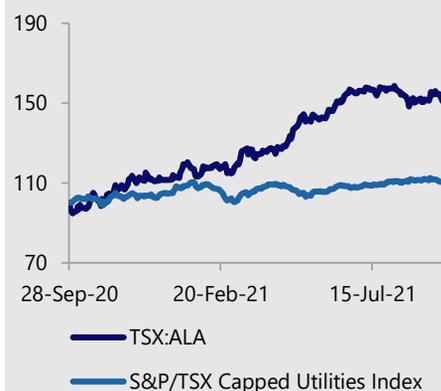
September 27, 2021

Stock Rating **BUY**
Price Target **CAD \$32.77**



Ticker	ALA
Market Cap. (MM)	\$7,112
EV/EBITDA (LTM)	11.9x
P/CF (NTM)	7.5x

52 Week Performance



Energy & Utilities

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AltaGas Ltd. Piping Up Returns

AltaGas is a Calgary-based firm with significant Canadian midstream and US utilities assets. The company's midstream segment operates pipelines from northern Alberta and BC to the coast, where they have the capability to transport LNG to Asian markets. The utilities segment, largely under the SEMCO name, delivers natural gas to millions of consumers across the US.

AltaGas has underperformed midstream peers over the last five years, largely due to the expensive acquisition of the US utilities business. However, the E&U team believes that firm is highly attractive now for a number of reasons:

1. Access to Asian LNG markets provides a significant moat, as AltaGas operates one of only two Canadian terminals. With new development continuing to be challenged despite increasing demand, this is poised to be a significant area of growth.
2. The firm's existing operational strength and assets will be benefitted by improved utility segment efficiency and the strengthening of midstream counterparties.
3. Management, which largely joined the firm in 2018, has focused on core assets and deleveraging. The turnaround of AltaGas has been impressive, and we have significant faith in management's continued success.

With valuation additionally attractive, the E&U team believes that entering a position in AltaGas will be advantageous and profitable.

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Company Overview

Short History

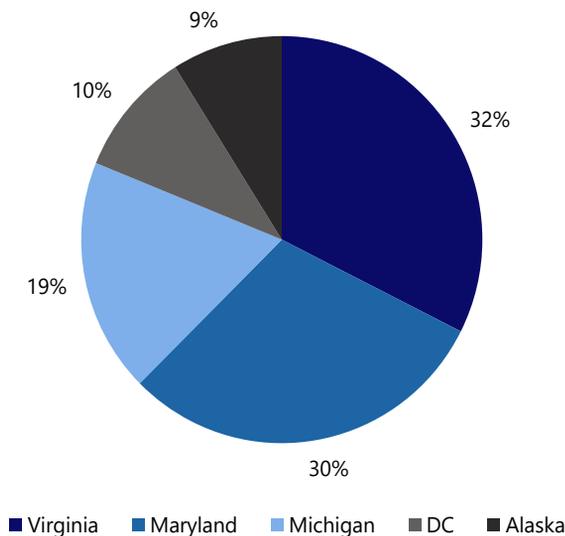
Significant natural gas deregulation in the mid-1990's stemming from an increasingly fleshed out industry led to the Alberta and Southern Gas Company streamlining operations. This led to 21 ex-employees forming AltaGas. In 1994, AltaGas commenced operations via the assignment of two short-term midstream service contracts, which was followed by further small acquisitions to aid in transporting Alberta natural gas to the west coast. The company entered the utilities business in 1998 with a \$108MM acquisition of Centra Gas Alberta. AltaGas has historically operated in three segments, utilities, midstream, and power, though recently it has been selling power assets; the segment now accounts for ~1% of 2021E EBITDA. It owns two major natural gas-fired power plants in the US.

Utilities

Similar to many utilities businesses, AltaGas' utilities segment is allowed to earn a state-regulated return based on return on equity (ROE). Costs for this segment remain fairly uniform, but revenues vary greatly based on seasonal demand. In 2018, AltaGas closed its \$9B acquisition of WGL Holdings, a utilities company that operates Washington Gas. Washington Gas serves ~1.2MM customers across Virginia, Maryland, and DC, 81% of which are residential. The three jurisdictions allow a ROE ranging from 9.2 - 9.7% with an equity ratio ranging from 53.5 - 55.7%. In Michigan, AltaGas operates under the name SEMCO Gas, which was allowed a 9.87% ROE with a 45.86% equity-based capital structure in 2020. SEMCO owns Alaskan utilities company ENSTAR and a 65% interest in another Alaskan utilities company called CINGSA. Capital spend in the utilities segment is focused on i) accelerated pipe replacement for better customer delivery, ii) maintenance, and iii) new business development to reach allowed ROE numbers, specifically with WGL operations. Periodic filings of rate cases provide further upside for AltaGas' utilities assets through increases in allowed ROE and equity thickness. Currently, AltaGas' regulated gas distribution sees a \$4.3B rate base, and growing this through capex is priority for AltaGas so ROE can be taken advantage of on this figure. Commodity sales in the utilities segment were \$1.34B in 2020 and can be attributed to the resale of natural gas to utilities customers across jurisdictions; AltaGas maintains a comprehensive hedging program, though this generally pertains to midstream operations, specifically protecting against the frac spread. As of the writing of this report, AltaGas' largest core utilities business, WGL underperforms relative to its allowed ROE figure. AltaGas has unique positioning for an energy company in that its utilities business provides a strong backbone of free cash flow that still holds further upside, while its premier midstream assets give an advantage through strong export volumes of premier hydrocarbon assets and direct exposure to fractionation in the all-star Western Canadian Sedimentary Basin (WCSB).

EXHIBIT I

Utilities Customers by Geography



Source(s): Company Filings

Company Overview

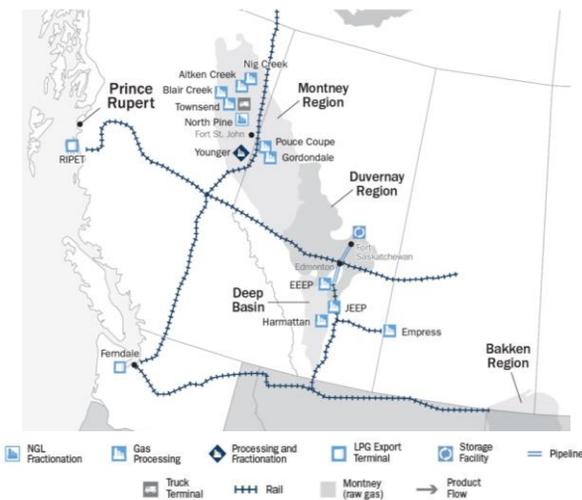
Midstream

AltaGas operates an integrated, growth-focused midstream business that accounts for 42% of 2021 EBITDA. Operations consist of i) gas gathering and processing across 12 facilities, ii) NGL extraction and fractionation in 6 owned facilities, iii) transport, storage, and rail logistics through ~4,700 rail cars, >6MMbbls storage, >125 trucks, and >250 trailers, and iv) global exportation via 2 global terminals, Ridley Island Propane Export Terminal (RIPET) and Ferndale. The company almost exclusively operates in the Western Canada Sedimentary Basin, specifically in the Montney and Alberta Deep Basin, and its logistics and transport focus on bringing North American end-product hydrocarbons to Asian downstream markets. Gas gathering lines bring raw gas to processing, where impurities and certain components are removed. All of AltaGas' 12 processing facilities are capable of converting raw gas into NGLs and converting throughput into usable end-products; in 2020, inlet

gas processing averaged an impressive ~1.4 Bmcf/d. AltaGas owns the only custom fractionating plant in B.C., which allows northwest Montney producers to realize lower netback in production of ethane, propane, butane, and pentane. The company also owns a series of NGL pipelines connecting upstream producers to the custom plant, as well as trucking and railways to connect to export facilities. AltaGas' recent acquisition of Petrogas has allowed it to garner four liquids handling truck businesses, a 3,000+ railcar fleet, five connecting terminals, and 6.2 MMBbbls of storage. As for AltaGas' export terminals, RIPET began operations in 2019 and Ferndale was acquired via the recent Petrogas acquisition. Both have >600,000 Bbls of storage and >60,000 Bbls/d of throughput. Both of these terminals are uniquely positioned in that they can export North American liquefied petroleum gas (LPG) to East Asian markets with shorter shipping time (10-11 days) than terminals on the US Gulf Coast or Arabian Gulf. These are the only west coast LPG export terminals in North America.

EXHIBIT II

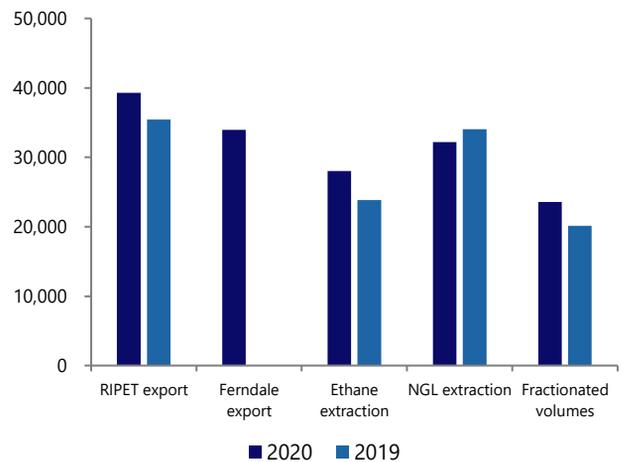
Map of Midstream Operations



Source(s): Company Filings

EXHIBIT III

Midstream NGL Operating Statistics (bbls/d)



Source(s): Company Filings

Company Overview

Customer Base

Midstream

AltaGas primarily serves customers within the WCSB, with a strong weighting towards the Montney region. ~65% of contracts are structured as either take-or-pay or fee-for-service; ~70% of customers maintain a credit rating better than -BBB.

Utilities

The customer split in AltaGas' utilities business consists of 70% residential users and 30% commercial/industrial customers. ~70% of utilities revenue is protected via fixed distribution charges and decoupled rate structures in Maryland and Virginia.

EXHIBIT IV

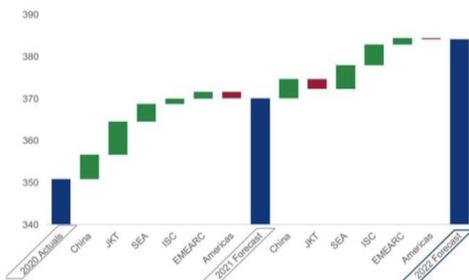
AltaGas' Net Debt / EBITDA Ratio



Source(s): S&P Capital IQ

EXHIBIT V

LNG Demand Growth (Mt of LNG)



Source(s): Wood Mackenzie LNG Demand Tracker Q1 2021

Petrogas Acquisition

On October 1st, 2013, AltaGas acquired a 25% stake in Petrogas Energy Corp., an integrated North American midstream company for ~2.8MM shares of AltaGas at \$35.69 a share. Weeks later on October 24th 2013, AltaGas announced a joint venture with Idemitsu Kosan Co. to raise its stake in Petrogas to 33.3%. The initial plan for the project was to leverage AltaGas' midstream logistics network across Western Canada into LPG and LNG exportation to Asia from the west coast of North America. In December 2020, AltaGas increased its stake in Petrogas by 37% for \$715MM to a reach a total equity stake of 74%, with the remaining being owned by Idemitsu. Petrogas' business features the Ferndale export facility which is underpinned by various domestic terminals and NGL product handling and processing.

This acquisition makes AltaGas the strongest first-mover in the west coast Asia-export space; the combined export ability of the Ferndale and RIPET facilities totals 130,000 Bbls/d. This unique strategic positioning allows AltaGas to serve high demand east Asian markets while maintaining relationships with northern British Columbian and Albertan upstream producers, most of which are secured via long-term purchase agreements. Asian demand for LNGs has been resilient and growing, especially when contrasted against the Americas, and with throughput at both RIPET and Ferndale expected to increase via strategic capital allocation, AltaGas could be well positioned for the near future.

Recent Deleveraging

In April 2021, AltaGas announced the sale of non-core US transport and storage assets for proceeds of \$344MM; this is a huge advancement in a deleveraging plan that is in place to focus on returning cash to shareholders and de-risking the company. AltaGas' current goal is to achieve a net debt / normalized EBITDA ratio of under 5.0x. The company is expected to reduce the ratio by at least 0.5x in 2021.

Industry Overview: Midstream Energy Infrastructure

A Brief History on Natural Gas

The existence of gas pipelines span back to 500 B.C where the Chinese used bamboo “pipelines” to transport gas that had seeped to the surface and use it to boil sea water. Since then, various stages of commercialization in 19th century North America/Britain evolved the applications of gas directly toward household usage—things such as home heating and cooking, appliances, and more. North America is home to the world’s most extensive and integrated system of natural gas pipelines that span over 3 million miles, which serves to link production areas and storage facilities with consumers. In 2019, this network delivered ~28.3 tcf of natural gas to ~77 million customers. The sophistication of integrated gas pipelines in the modern industrial landscape is characterized by i) Gathering and processing facilities ii) NGL extraction and fractionation facilities iii) pipelines, rail cars, and trucks and iv) strategic export terminals that allow for a widened reach. About half of the existing mainline natural gas transmission network and a large portion of local distribution centers were installed in the 1950s and 1960s following more than

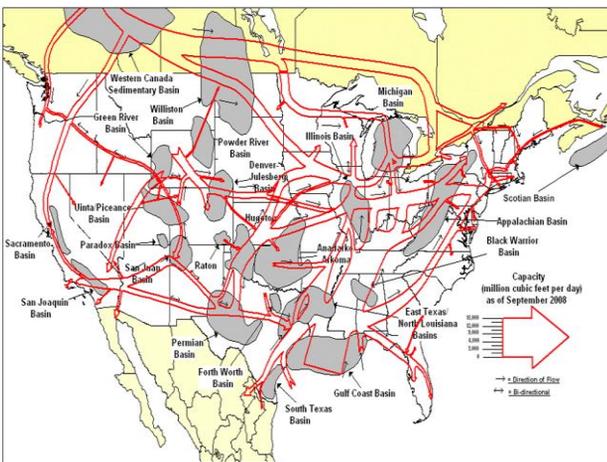
doubled demand for gas-based energy post-WWII.

Sector Overview

Operators in the midstream energy infrastructure sector transport natural gas between processing plants and local distribution systems via pipelines and other transportation methods such as rail cars, trucks, and trailers. In the energy value chain (upstream, midstream, and downstream companies), these companies interact with producers by carrying their product and augmenting the end-market reception by marketing and distributing to various downstream distributors. Midstream companies are characterized by their ability to earn revenues through contracts that vary in nature: with considerations often being commodity price exposure, fixed fees, and margin sharing, to name a few. Therein lies an opportunity for operators to carefully determine the optimal product volumes, risk tolerance levels, and expected revenues that they aim to earn, making the midstream contract structure an attractive consideration for stability-seeking energy investors.

EXHIBIT VI

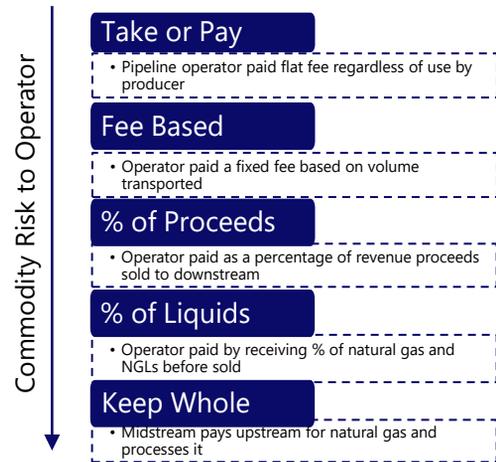
North American Natural Gas Pipeline Network



Source(s): Energy Information Association

EXHIBIT VII

Contract Type vs. Risk



Source(s): BMO Capital Markets, QUIC

Industry Overview: Midstream Energy Infrastructure

The current industry standard is lower-risk, more hedged contracts for the vast majority of pipeline companies; however, there are abnormalities in the midstream and it is important to weigh a company's contract mix when considering investment. Midstream operators can take part in the upside of commodity prices through the "frac spread" which is essentially the difference in the price of natural gas and natural gas liquids (NGLs), with each figure being compared using "\$/Gallon". If there is perceived value in taking on commodity risk, pipeline operators may sign contracts that lean to either side of the spread. QUIC's E&U team holds high conviction in North American midstream business models inherently, so low-risk contract opportunities that mitigate commodity pricing perils entirely are perceived as more attractive investment opportunities.

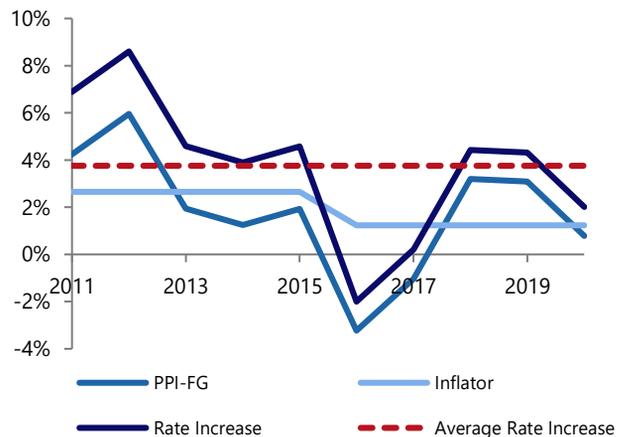
Industry Dynamics and Macroeconomic Influence

Being no exception of the energy value chain, pipeline companies can be adversely affected by prevailing commodity prices depending on their respective contract mix. Beyond this, macroeconomic factors such as political regulations, interest rates, and inflation each weigh in on the supply side of the value chain and will be covered further throughout the report. Currently, the lofty crude prices have created a landscape that expectedly should support ongoing growth in associated gas production, which then triggers the demand for subsequent processing capacity increases. The EIA forecasts global gas demand to increase 3.6% in 2021 and ease down to an average of 1.7% through 2025. Regulatory challenges have been a significant hurdle implicating added capacity and new projects in North America. Government-led maneuvers that emphasize more significant penetration of non-gas resources, greater energy efficiency, and clean energy have heavily diminished opportunities for new pipeline development. As an industry that is nearly impossible to break into as a junior player, further trends of tuck-in acquisitions and consolidation should only strengthen solidified players' positions as they can

benefit from further geographic diversification and strategic asset deployment in this current market. Looking at other macroeconomic dynamics, midstream companies are well-insulated from interest rate increases, as they generally utilize 70-100% fixed-rate debt to finance projects and operations, making cash flow growth and longer-term performance less sensitive to higher rates. To supplement, general interest rate rises driven by economic growth corresponds with greater energy demand, as evidenced by the major demand uptick in 2021 which has provided significant tailwinds for producers. Furthermore, the recent stimulus-fueled inflationary period has increased concerns for investors, however, many pipeline contracts include inflation escalators to offer revenue protection. Midstream companies can receive a boost in their tariff rate by an amount based on the change in the producer price index (PPI). Few companies have export terminals that flow into Asian markets, and AltaGas is one of these, who can only stand to benefit from current inflationary concerns. Asia-Pacific regions are expected to account for nearly half of global gas demand increase through 2024.

EXHIBIT VIII

Tariff Increases for Pipelines Relative to Inflation



Source(s): East Daley

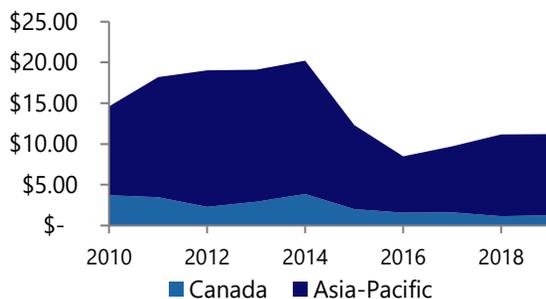
Industry Overview: Midstream Energy Infrastructure

Competition

The natural gas distribution industry in Canada is characterized by a low level of market share concentration, with the four biggest operators generating less than 30% of industry revenues historically. As it becomes increasingly difficult to build new pipelines due to government-led pushback, the value of existing pipeline should only increase, and major trends of consolidation will direct all competition to be hashed out amongst seasoned existing players in North America. AltaGas has strategically shifted operational focus into leveraging their gas processing foothold in NEBC, competing against players such as Pembina, Keyera, and Enbridge for highly sought after Montney and Alberta Deep producer contracts. The strategic location of AltaGas' RIPET and Ferndale export terminals unlock potential in a relatively underserved Asia-Pacific market that prices at a premium to North American opportunities. The >130,000 bbl/d³ capacity through these terminals give ALA a chance to compete in global jurisdiction ripe with demand trends and provide a more attractive valuable proposition to producers that competitors cannot easily replicate in the near term. Further, operators who can successfully obtain favourable rate hikes from regulators and utilize technologically-innovative utility infrastructure will continue to be the champions of NEBC asset bases.

EXHIBIT IX

Asia-Pacific vs. Canadian Natural Gas Prices



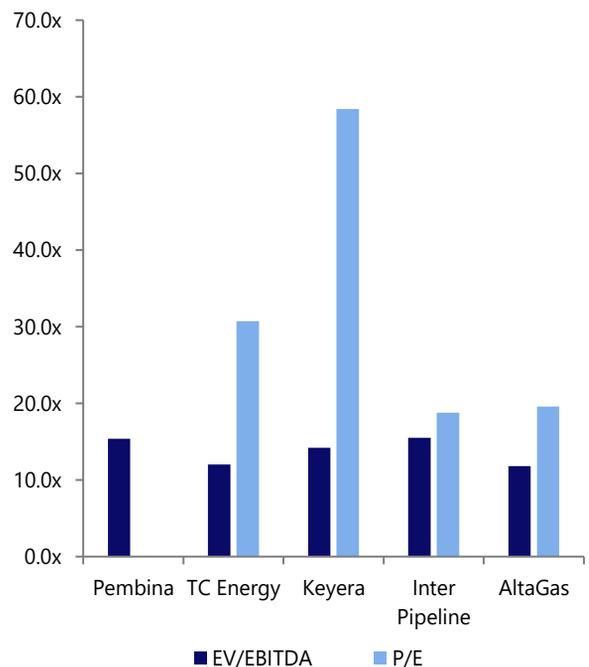
Source(s): BP Statistical Energy Review

Outlook

After seeing major scrutiny for providing ~\$23B in support to developing megaproject pipelines since 2018, the regime of government-supplied capital injection is likely coming to an abrupt end. Increasing regulatory and legal roadblocks for major pipeline projects and the recent anti-pipeline actions by the Biden administration under the infrastructure bill only increase the moats for fully-integrated midstream businesses such as AltaGas. The resilient fundamentals of these companies will continue to pave a way for stable cash flows underpinned on weeded-out, stronger contracts. Potential upside can be realized in the longer-term if infrastructure can be repurposed to support hydrogen and other clean sources of energy.

EXHIBIT X

Trading Multiples of Notable NEBC Competitors



Source(s): S&P Capital IQ

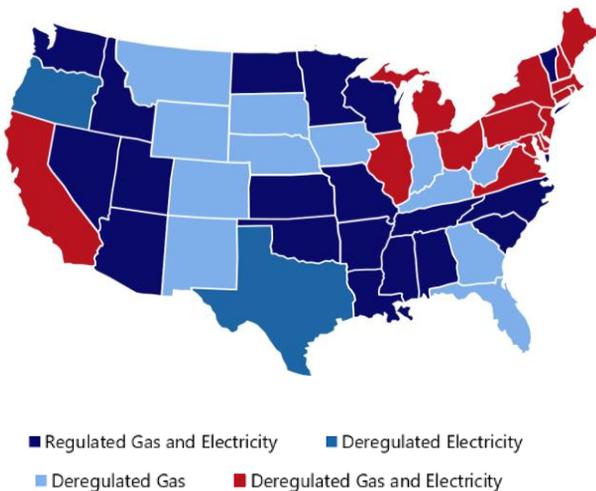
Industry Overview: Utilities

Overview

Utilities companies are responsible for providing electricity or gas to commercial, industrial, and residential customers. In the US, 80% of industry earnings stem from electricity, followed by 15% from natural gas and 5% from other sources. Utilities companies convert purchased primary energy sources (typically hydrocarbons) to electricity via owned plants or insource electricity directly through renewable energy assets. Utilities companies generally take the form of extremely large-scale regional monopolies because of historical developments, more efficient power use, and built-out economies of scale that prevent new entrants. Because of the monopolistic nature of the utilities industry, company operations are mostly regulated in the US federally by the Federal Energy Regulatory Commission (FERC) and on a state-by-state basis to ensure electricity demand is met at a fair price for consumers. 16 states do have unregulated generation, which allows for cost-based competition. AltaGas strictly distributes natural gas, so the remainder of the industry outlook will reflect this.

EXHIBIT XI

Energy Market Regulation by U.S. State



Source(s): Electric Choice, QUIC

Industry Dynamics

Since the early 2000s, the natural gas availability has dramatically improved thanks to advanced drilling techniques employed by upstream producers. End users have been particularly receptive to this, as natural gas has historically been more affordable than other non-renewable energy sources, and has a comparatively lower impact on the environment. Due to the fairly stagnant nature of the industry, companies earnings are driven by i) approved rate increases, which are covered below, ii) federal policy, iii) expansion of asset base through capital expenditures, iv) acquisitions, and v) gas prices among other things. There is little opportunity for growth or competition to drive change in the industry, except in deregulated markets, in which a zero-sum game occurs where the lowest cost provider wins out. Capital expenditures are largely contingent on gas demand growth, expanding asset base and generation to be lower-cost, and recently, federal policy pushing for green electricity generation across the country. Many companies within the utilities industry have a deep yet narrow economic moat which stems from built out infrastructure that allows for a cost advantage, efficient scale, and most importantly, the intangible asset of teeming regulations. The industry has experienced significant volatility in recent, leaving operators have battled with overwhelming swings in natural gas prices. The price of natural gas fell 21.5% in 2020, and is expected to grow ~42% in 2021, with associated revenues estimated to grow 23.1% in step with the price recovery. Over the long term, natural gas prices are expected to fall modestly at an annualized rate of 0.8% to \$2.8mmbtu in the next 5 years, but nonetheless, demand for natural gas is expected to accelerate in this period, rising at an annualized 2.2%. Other catalysts that determine residential and commercial use levels such as expansion in residential construction and electric power consumption are poised to grow at a stable pace in the near term. Looking at macroeconomic drivers, the extensive infrastructure and capex needed to build out strong distribution networks insinuates larger debt profiles for utilities, and in higher interest rate markets, makings raising and refinancing tricky.

Industry Overview: Utilities

Looking at long-term dynamics, a widespread announcement of decarbonization from several utilities companies has the industry poised to be the acceleratory catalysts that crystalize the importance and urgency that the power and utilities industry must take when transitioning to cleaner energy.

Regulation

At a state level, rates are set to allow utilities companies to earn an ROE on investments and recover costs. The revenue requirement formula is equal to (rate base * ROE) + operating expenses + D&A + taxes. To improve the bottom line, utilities companies file "rate cases" with the state utility commission to improve earnings via an increase in the rate base; in these requests, companies are usually required to have a capital structure of 50/50 debt/equity. The FERC regulates 73% of electricity in the US and its purpose is to ensure electricity demands are met nationwide at a fair price. Among regulators, the FERC is considered favourable due to their tendency to allow for higher ROE. As of YE2020, average allowed ROE was roughly ~9.4%.

Competitive Landscape & Outlook

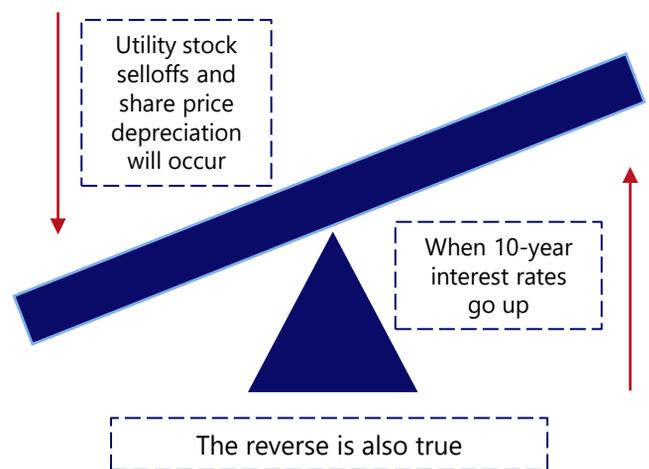
The structure of a utility inherently disposes any risk of high competition, and as such, the industry has maintained low concentration historically. Natural gas

distributors serve local and regional markets, and cross-state regulations have proved burdensome for those who attempt to expand laterally. Competition has slightly altered in the past 5 years, as industry consolidation in regional markets to achieve economies of scale in low pricing markets has become a more prevalent theme. Maintaining supply contracts on a timely and consistent basis are consistently key to having stable long-term success as an operator.

The extensive upside to be realized in natural gas demand over the years will be a catalyst to utilities industry ability to achieve lower costs and satisfy demand. Conversely, gradually rising interest rates over the next couple of years is expected to partially offsets bond market's prevailing search for alternatives to low-yielding fixed income investments. In the longer-term, the broader energy industry is likely to converge to meet clean energy mandates, and increased investment from major players looking to diversify should only add robust growth to existing utilities infrastructure and be a key driver of success.

EXHIBIT XIII

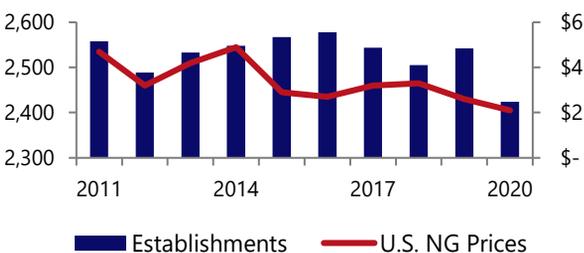
Relationship between Utilities and 10-year Treasury Bond Rates



Source(s): Edward Jones

EXHIBIT XII

Establishment Decreases Relative to Gas Prices



Source(s): IBISWorld

Investment Thesis I: Structural Supply Advantages Unlock Asian Upside

A Surge in NGL Demand

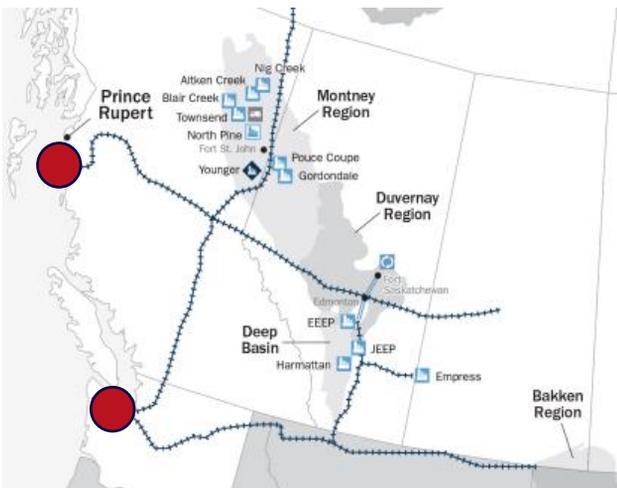
Contemporary energy markets have been characterized by firms responses to a pandemic that halted and dislocated the industry; producers are scrambling to find opportunities to invest along a deteriorating value chain that is transitioning into sustainable sources entirely. Enter the Natural Gas Liquid (NGL) market. A boom in unconventional oil and gas development has led to a massive increase in NGL supply-nearing record highs. Thus far, the U.S. has been leading the charge in satisfying global demand increases for NGLs, with volumes of 1.7mmb/d being directed at Asian markets. However, AltaGas pre-emptively set up strategic network distribution points on the coast of B.C and Washington. These enable unparalleled VLGC travel times (~15 days faster than U.S. GC) to Asia-pacific regions which pay an ~\$12/mmbtu premium on natural gas, bolstering propane tailwinds in the process. AltaGas is the first-mover in Canada who has now unlocked >130,000bbl/d³ of export capability to markets that were fuelled only by American NGLs. In turn, Canada's west coast propane exports rose nearly 77% in 2020, with AltaGas being the paradigm of the entire movement.

Addressing the Market

Understanding that more storage capacity and infrastructure are key to capturing this rowing market, AltaGas strategically increased ownership interest in Petrogas by 42% in 2020. Addressable demand in Asia-Pacific regions can be traced 'to a massive upward tick in petrochemical facility openings, in which the Asian markets make up 48% of new project announcements. This should act as a sigh of relief for those worried about the longevity of the export pattern from North America, meaning AltaGas's sustained investment in meeting this demand was well executed. As North American markets continue to tighten, the opportunities emerging from Asian LNG demand patterns should not be taken lightly, as they're projected to make up 95% of LNG demand growth by end of 2022. Asian markets have altered since COVID-19, as demand for polypropylene (PP) reached all-time highs, as the need for single-use plastics dramatically increased to ~33% of demand; resulting from precautionary COVID measures. Initial shortages of this left Asian governments prudent on ensuring they had ample supply for the near-term. The demand for inexpensive western imports with quicker export timelines will catalyze this trade relationship for years to come.

EXHIBIT XIV

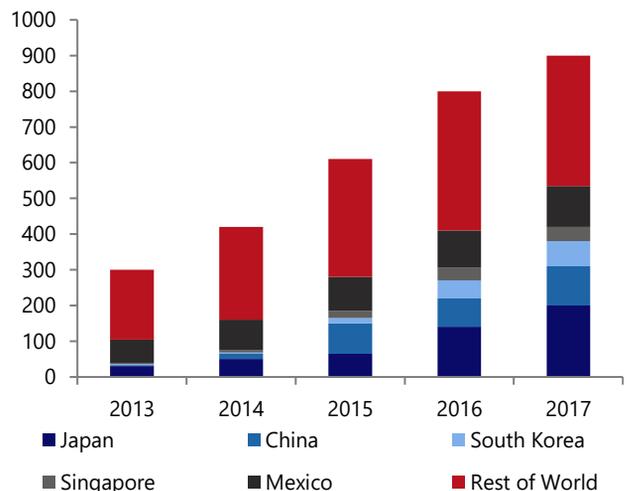
RIPET and Ferndale Export Terminals



Source(s): Company Investor Presentation

EXHIBIT XV

Americas Propane Exports by Destination



Source(s): EIA

Investment Thesis I: Structural Supply Advantages Unlock Asian Upside

Price insulation

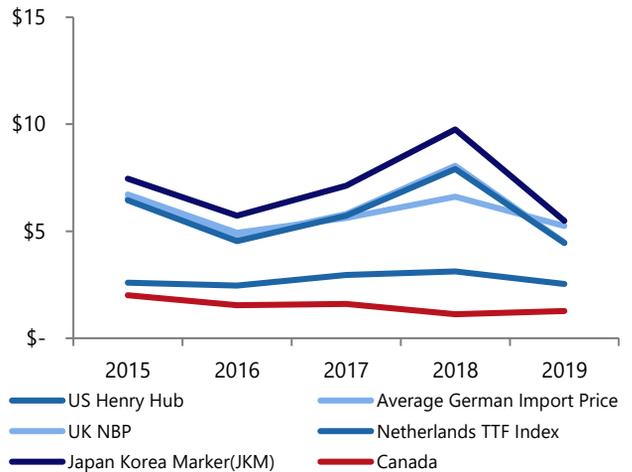
As the Asian market scrambles to replenish inventories, the prices for late 2021 deliveries have rose nearly ten-fold to from \$2 to \$21/mmbtu since pre-pandemic. As traders have been exhausting North American exports to meet this demand, Natural Gas futures reached a 7-year high in the U.S. Brent Natural gas prices has floated between \$3-\$5.5 in the past year, demonstrating the significant upside to be realized for producers with access to Asian markets. The company has flexibility on tariffs rates for global exports to fight inflationary rises despite historically providing minimal capital outlay to increase these LNG exports anyways. Further, Canadian natural gas producers can provide significantly cheaper propane then competing eastern countries, evidenced in exhibit XVI. The North American distributors such as AltaGas can maintain strong contracts at these favourable prices due to the intangible value placed upon the transparent, competitive dynamic of the North American natural gas markets. Non-FTA countries have to balance geopolitical risk in energy choices, and Asian markets have demonstrated they would prefer to lean on more secure trade with U.S. exporters who can sustain more contractual flexibility as well.

The AltaGas Value Proposition

With limited support to build out further global export distribution capacity, Canadian NGL export presence has been lethargic historically. AltaGas, as a pure-play gas distributor, is positioned to annihilate the current landscape of Canadian-Asian NGL export trade through their strategic west coast presence with the RIPET and Ferndale terminals which tap into world-class plays such as the Montney and Albert Deep. Being able to price penetrate and offer speedier travel times presents the ultimate value proposition to meet booming demand for LNG in international markets. This is a fundamental supply-side advantage for AltaGas, as their reputation as low-cost, high-quality first movers will allow them to achieve earnings durability and fend off the significant project backlog expected to enter the west coast supplier networks.

EXHIBIT XVI

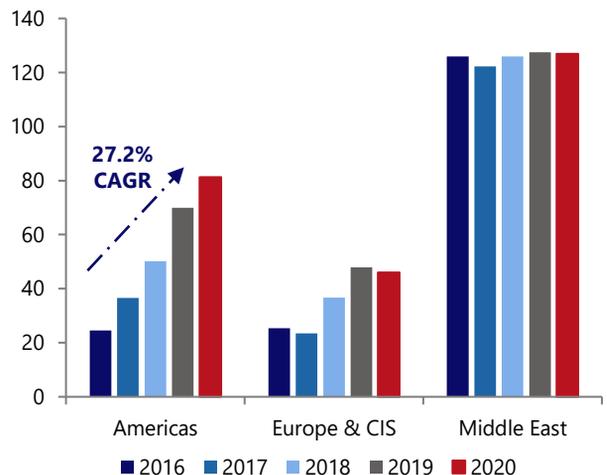
Natural Gas Prices of Competing Exporters (\$/mmbtu)



Source(s): BP Statistical Energy Review 2020

EXHIBIT XVII

Growth in LNG Exports (bcm)



Source(s): BP Statistical Energy Review 2021

Thesis II: Operational Improvement Capabilities

Differentiated Midstream Positioning

AltaGas' relationships with top WCSB producers including Canadian Natural Resources and ConocoPhillips enable it to focus on operational improvements without competing for contracts or worrying about empty capacity. In 2016, the US was exporting ~100MM cubic feet of LNG per day and this has since risen to ~9.6B cubic feet exported daily. Canada's natural gas industry has long been desperate to gain even a fraction of this business, and AltaGas provides an answer as a first-mover in the space. There are currently 13 proposed west coast LNG import/export facilities, the most notable being LNG Canada's \$40B facility backed by Indigenous support, Steelhead LNG's \$30B facility, and Kitimat LNG's \$15B terminal. None of these projects have broken ground yet because of extremely high capital costs, regulatory barriers, and intellectual property to build a functioning facility that is as efficient as US Gulf Coast operations.

While the bulk of near-term capital expenditure plans are expected to go towards the utility segment, AltaGas mentions the ability to increase throughput at RIPET long-term. This differentiated positioning as a first-mover in west coast LNG exports is a straightforward economic moat because of the high barriers to entry and time/cost advantage; however, the moat's trajectory is oftentimes viewed as narrowing in street equity research because of the high investment in the west coast LNG export space as well as potentially lower realized frac spread. QUIC's E&U team's view on AltaGas' midstream segment differs in that i) we believe the relationships AltaGas has formed with upstream producers and VLGC's mitigate the risk of new entrants taking business, especially in downturns, ii) previously mentioned upside in NGL markets as well as ~70% active hedging on export facility throughput mitigates commodity price risk, iii) short-term capex is focused on utilities, but potential long-term investment in further vertical integration such as acquiring VLGCs (as mentioned in Q2 2021 earnings call) proves attractive.

EXHIBIT

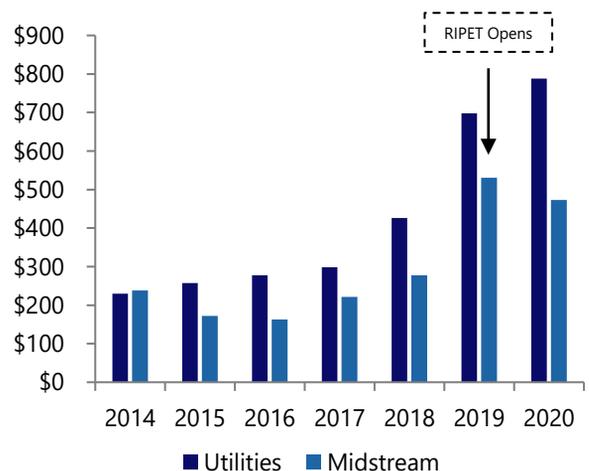
Proposed B.C. LNG Export Terminals

Project	Export Volume	Cost of Project (\$B)
Kitimat LNG	1.3 Bcf/d	15
LNG Canada	3.5 Bcf/d	40
Cedar LNG Project	0.8 Bcf/d	-
Orca LNG	3.2 Bcf/d	-
New Times Energy	1.6 Bcf/d	-
Kisault Energy Project	2.7 Bcf/d	-
Stewart LNG Export Project	4.0 Bcf/d	-
Triton LNG	0.3 Bcf/d	-
Woodfibre LNG	0.3 Bcf/d	1.6
WesPac LNG Marine Terminal	0.6 Bcf/d	-
Discovery LNG	2.6 Bcf/d	-
Steelhead LNG: Kwispaa LNG	4.3 Bcf/d	30

Source(s): Government of Canada

EXHIBIT

Historical Segmented EBITDA (MM)



Source(s): S&P Capital IQ

Thesis II: Operational Improvement Capabilities

Upside in Utilities Business

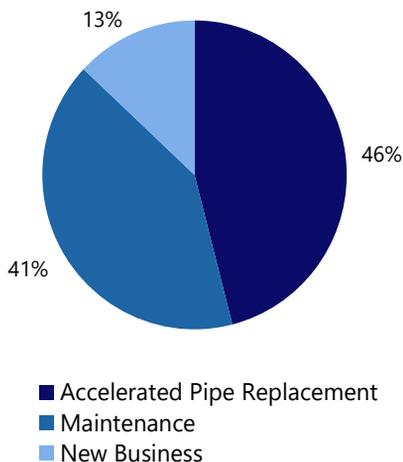
All of AltaGas' utilities businesses are allowed to earn regulated returns based on capital structure and ROE. AltaGas has been nimble and effective at managing rate bases and winning cases in recent history, having seen annual rate bases across business grow 74% over the past 3 years; this is largely due to prudent work post-WGL acquisition in 2018. More interesting is the fact that AltaGas' utilities segment is underachieving its allowable ROE figure; in its largest utilities business by revenue, WGL, AltaGas has returned an ROE that is 2-3% under the allowable rate since acquiring the business. Closing the return gap in utilities is typically a drawn-out process; however, there is significant upside (~\$50MM). Front-and-center of closing the gap is AltaGas' accelerated pipe replacement (ARP) program, which involves replacing aging infrastructure (WGL has operated since 1848) that bears higher maintenance costs. Management has made this clear that ARP is the priority for the majority of near-term capex.

Near-Term Macro Tailwinds

With the Biden administration pushing forward its \$2T infrastructure plan that includes improving internet service, access to drinking water, and more, AltaGas and other utilities companies operating in the US see opportunity to put pressure on rate bases and yield higher returns. Spending on clean energy, electric transmission, grid resilience, and electric-vehicle charging infrastructure means utilities companies will be forced to grow and alter existing business to suit the plan; early complaints on unrealistic expectations have already been brewing. Potential tax credits for the clean energy transition and raising allowable ROE possibilities that have been brought to light by companies who are skeptical of the timelines to comply with the new regulations. AltaGas specifically could see huge upside in the event of utilities-friendly legislation as the company's utilities segment is already underperforming; this could be the boost it needs to adjust and optimize its utilities portfolio.

EXHIBIT

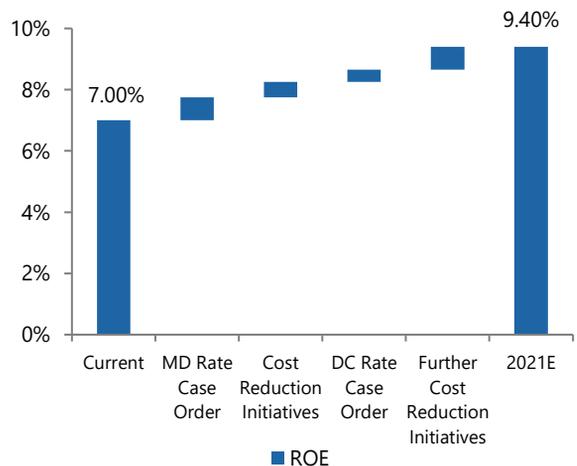
2021E Utilities Capex (~\$565MM)



Source(s): Company Filings

EXHIBIT

Plan to "Close the Gap"



Source(s): Credit Suisse

Thesis III: Effective Management Leading to Turnaround

Updated Management Team

AltaGas, in mid-2018, underwent a significant operational shift as a result of the WGL acquisition. At approximately the same time, an unspecified complaint about the CEO (David Harris) resulted in his resignation and forced the company to hire a new leader. This was a time of significant turmoil for the firm; however, since 2018, AltaGas has performed admirably. Randy Crawford, the current CEO, has strengthened the company and focused on core businesses. With the damage that came as a result of the WGL acquisition and the subsequent recovery, AltaGas is a great example of an effective turnaround strategy. Longer term, Crawford promises to ensure continued financial improvement, which will allow for expansion of the firm's Canadian NGL export business.

Debt Reduction

At year end 2018, AltaGas had a 10.8x debt to EBITDA ratio as a result of the significant premium paid for WGL. This was a clearly an unsustainable level of leverage, leading S&P to downgrade AltaGas' credit rating to BBB- with a negative outlook. Most expected the company to become non-investment grade; however, significant deleveraging activities (including the sale of non-core assets) has resulted in a <6x debt to EBITDA multiple and a credit rating increase to BBB. Most analysts were significantly bearish on the equity

due to the level of debt in 2018, a trend that has been reversed as deleveraging has continued.

Focus on Core Assets

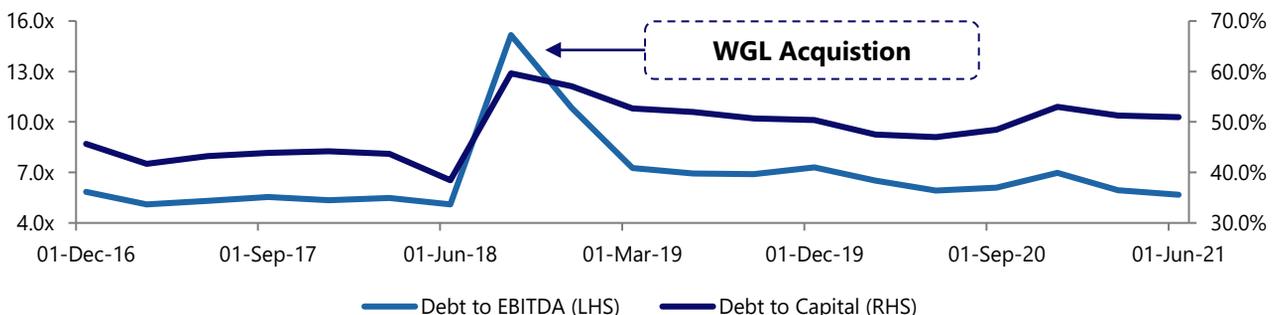
The largest change executed by the updated management team has been the sale of non-core assets and expansion of their core asset base. In December 2018, Crawford and his team laid out a plan to focus on AltaGas' US utilities business and Canadian midstream operations. This meant the divestment of power generation and US natural gas storage/transportation assets. In 2019 alone, the firm sold \$2.2B of assets. These funds have been used for deleveraging as well as building out its midstream capabilities. AltaGas is a stronger and more focused firm today that is in a good position to execute on industry tailwinds.

Compensation

With named officers having between 70% and 85% of their pay at risk, there is a strong incentive for management to continue to outperform. Given the relatively recent appointment of the current team, their ownership is relatively limited; however, the at-risk pay effectively accounts for both short-term and long-term performance in place of equity exposure. Targets are largely tied to operational performance and financial improvement.

EXHIBIT XXII

ALA Leverage since 2016



Source(s): S&P Capital IQ

Risks

Utilities Capex Requirements

With most of AltaGas' capital expenditures going to the utilities segment (~80% of total capex), costs over the next few years are expected to remain elevated. Assets inherited from the WGL acquisition continue to require higher levels of maintenance due to age, which is expected to be a drag on FCF until at least 2023. AltaGas has won approval for several large accelerated replacement program projects; which should immediately yield returns and position the company well in the longer term, as maintenance spend requirements will be lower.

Interest Rates and Inflation

With interest rates at all time lows, investors have turned to utility names to earn a stable and low risk yield that, while low, is higher than options in the bond market. As we begin to enter a higher inflation environment, it is a relatively safe assumption that interest rates will begin to rise. As such, investors may begin to turn away from utilities and head back to bond markets for its higher level of safety, leading to lower equity prices. Furthermore, rising rates will lead to higher financing costs, which may impact AltaGas'

ability to expand and the company's bottom line in the short term. While these costs may be passed along to the consumer eventually, rate case increases take time to receive approval and may not be successful.

While inflation is not a major factor outside of interest rate implications, increased maintenance costs do present cause for concern. Like interest rates, increased costs should theoretically be passed onto the consumer. However, delays in regulatory processing and rate case losses can leave AltaGas covering higher expenses.

Currency Risks

With 57% of AltaGas' 2020 revenue coming from its US utilities segment, the firm is heavily exposed to fluctuations in the US/CAD exchange rate. Recent strength in the Canadian dollar as energy prices remain elevated has resulted in a worse exchange rate for AltaGas. While this risk is partially mitigated by the firm's USD denominated debt, fluctuations in exchange rates will undoubtedly have some impact. The firm is also active in hedging this risk away, which lends some additional protection to the firm.

EXHIBIT XXIII

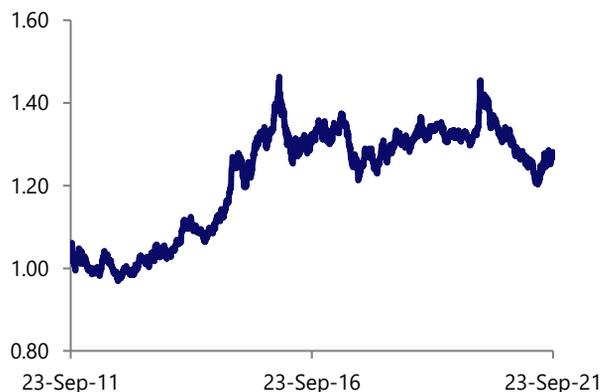
10 Year Treasury Yields



Source(s): S&P Capital IQ

EXHIBIT XXIV

CAD/USD Exchange Rate



Source(s): S&P Capital IQ

Valuation & Commentary

Top-line growth, the greatest catalyst in this model, is driven by bolstering Asian demand for North American NGLs and subsequently astounding recent and forecasted performance of assets Ferndale and RIPET.

Management projected 2021E EBITDA at \$1.4-\$1.5bn. To remain conservative despite increasing operational efficiency, a three-year historical average margin was calculated and applied to the model on a forward basis. Given market saturation, CapEx was forecasted to decrease to its maintenance component value (calculated as a % of PPE) by the terminal year.

Instead of calculating WACC, a hurdle rate of 8% was used to discount UFCF. This avoids debt market-skewed valuation and will allow the team to assess the opportunity cost of entering new names going forward. All-in, the intrinsic valuation implied a price of **\$32.77/equity share**, representing **29.7% upside**.

EXHIBIT XXV

Capitalization Table	
DCF Implicit Forecast	\$ 5,925
Terminal Value (Gordon Growth)	11,890
Implied Enterprise Value	17,814
(+) Cash and Equivalents	41
(+) Cash Proceeds from Options	190
(-) Total Debt	(7,881)
(-) Preferred Shares	(44)
(-) Minority Interest	(636)
Implied Equity Value	9,484
Common Shares Outstanding	280
FDSO	289
Current Share Price	\$ 25.26
Implied Share Price (CAD)	\$ 32.77
Implied Return	29.7%

EXHIBIT XXVI

AltaGas Ltd. Cash Flow Waterfall In mmCAD (unless otherwise noted)	Historical			Forecast									Terminal
	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<i>December 31 fiscal year end</i>													
Revenue													
Utilities	2,915	3,921	3,817	3,939	4,139	4,252	4,350	4,441	4,529	4,617	4,706	4,797	4,890
Midstream	1,345	1,575	1,635	5,120	5,588	5,933	6,216	6,439	6,616	6,767	6,889	6,955	6,989
Gross Revenue	4,257	5,496	5,587	9,146	9,815	10,273	10,655	10,970	11,237	11,477	11,689	11,847	11,975
<i>Growth</i>		29.1%	1.7%	63.7%	7.3%	4.7%	3.7%	3.0%	2.4%	2.1%	1.8%	1.4%	1.1%
Cost of Sales	2,455	3,228	3,178	6,219	5,920	6,197	6,427	6,617	6,778	6,923	7,051	7,146	7,223
OpEx	1,129	1,299	1,267	1,419	2,338	2,448	2,539	2,614	2,677	2,734	2,785	2,823	2,853
EBITDA	(67)	549	1,029	1,450	1,556	1,629	1,689	1,739	1,782	1,819	1,853	1,878	1,898
(-) Depreciation & Amortization	394	438	414	550	752	787	817	841	861	879	896	908	918
EBIT	(461)	111	615	900	804	841	873	899	920	940	957	970	981
(-) Income Taxes (Recoveries)	(263)	(28)	127	151	115	124	131	137	142	146	150	153	156
NOPAT	(198)	138	488	749	689	718	742	762	778	794	807	817	825
(+) Depreciation & Amortization	394	438	414	550	752	787	817	841	861	879	896	908	918
(-) Capital Expenditure		1,297	825	910	817	723	630	537	443	350	257	163	70
(-) Additions to NCWC		383	270	(81)	419	46	35	34	27	24	18	19	13
Unlevered Free Cash Flow	196	(1,103)	(193)	470	205	736	893	1,032	1,170	1,299	1,428	1,543	1,660
Discount Period				0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25
Hurdle Rate				8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Cumulative Discount Factor				0.981	0.908	0.841	0.779	0.721	0.668	0.618	0.572	0.530	0.491
NPV of UFCF				461	186	619	695	744	781	803	817	818	815

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